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DECEMBER 1989
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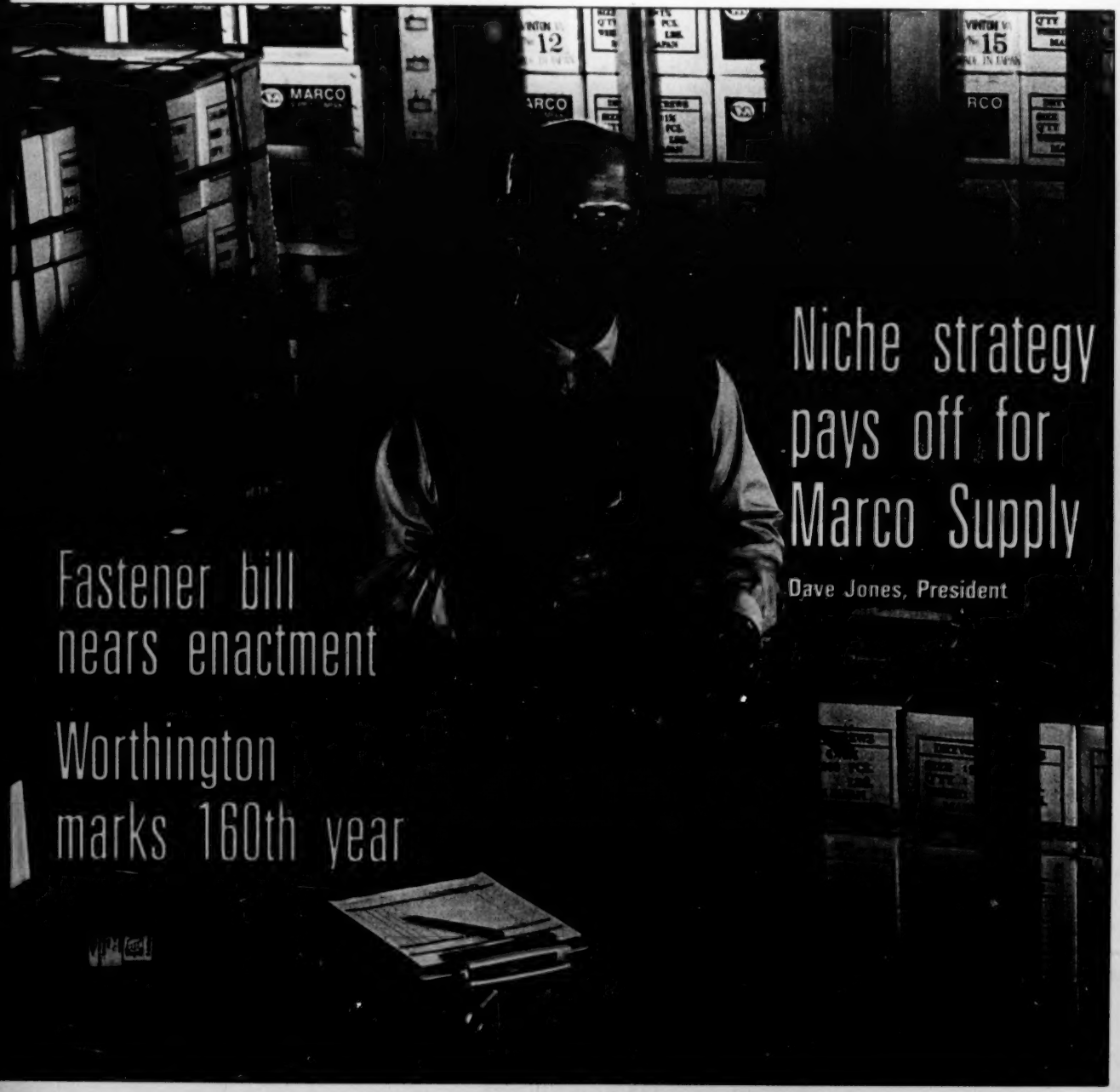
Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Specifying PT belting



Niche strategy pays off for Marco Supply

Dave Jones, President

Fastener bill nears enactment

Worthington marks 160th year

Industrial Distribution

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VOL. 78, NO. 12 DECEMBER 1989 A CAHNERS PUBLICATION

Dave Jones stocks his shelves to serve a six-state construction niche.

Cover photography by Steve Budman

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At Marco Supply, market intelligence and attention to daily details support aggressive selling and continually increasing sales.

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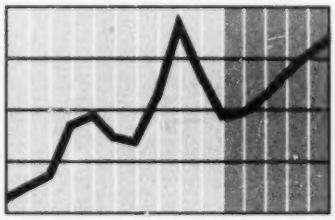

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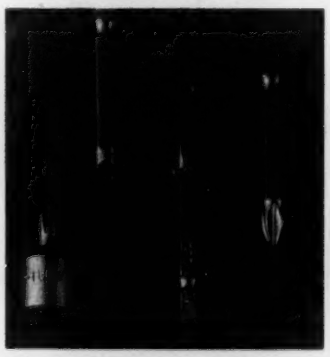

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BUSINESS REPORT

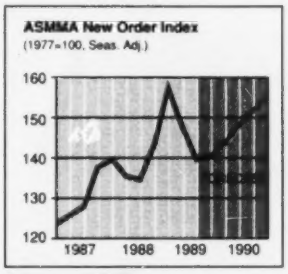
BY KRIS BLEDOWSKI

OEM slowdown expected in 1990

But growth will still be apparent

The OEM sector, which comprises heavy machinery and components in categories SIC 34-38, typically follows the general trend of total industrial output. Accordingly, the first half of the new year will see slowing output of durable goods, followed by a moderate upswing in the last two quarters. After this year's gain of 3.6%, expect OEM industrial production to advance 2.2% in 1990 and another 5.5% in 1991.

Nonelectrical machinery has been the driving force in the OEM sector's strong showing. We expect growth to slow down significantly next year but be still above this year's levels. Industrial production of nonelectrical machinery should top 3.0% in 1990, down from this year's surge of 8.5%..



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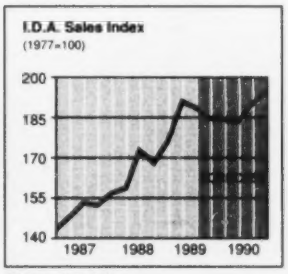
Forecast source: Cahners Economics



Data source: I.D.A.
Forecast source: Cahners Economics

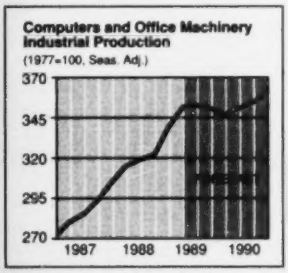
Almost all of the industries within the SIC 35 grew at, or close to double digit rates in 1989. However, in 1990, lower single digits will be the norm. Construction machinery is likely to remain strong with a growth rate of 4.4% this coming year.

Output of special machinery, such as those for the textile industry, will barely change from this year while production of engines and farm equipment will actually fall 4.5% in 1990. The only exception is plastics equipment.

Manufacturers of plastic processing machinery will see orders begin to recover in 1990. Orders for domestically produced injection molding machines are forecast to grow 6.3% from 2,163 units in 1989 to 2,300 units in 1990. Extrusion machinery orders will advance from 1,023 units this year to 1,100 in 1990. And orders for auxiliary equipment will remain flat.

Metalworking machinery has been gaining momentum as machine tools shipments have begun to soar at an annual rate of over 30% as '89 closes. Again, this rate is not sustainable in 1990.

The overall strength of heavy machinery can be attributed to confidence in the economy's momentum. Firms continue to spend in anticipation of the next expansion. Capacity has been strained, prompting production managers to think about investment now when interest rates have declined and inflation is moderate. With most economists not forecasting a recession, the prospects for heavy machinery are good. □



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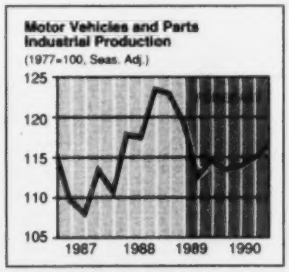

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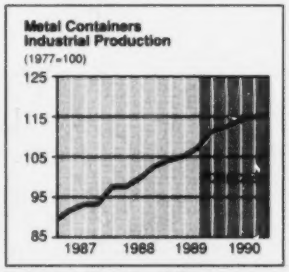

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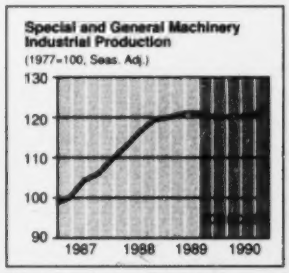


Data source: Commerce Department
Forecast source: Cahners Economics

(1977=100)	SALES Sep. 1989	Aug. 1989	Sep. '89 vs Sep. '88 % change	RECEIVABLES Sep. 1989 days	INVENTORY Sep. 1989 % change
TOTAL	192.8	197.5	7.3	40.8	-0.9
EAST	183.9	184.4	7.6	44.7	-1.6
SOUTH	266.2	280.8	9.5	38.0	-0.8
CENTRAL	183.4	184.7	11.4	42.2	-0.6
WEST	210.22	208.5	-3.4	38.4	0.1

SOURCE: Industrial Distribution Assn.

SUPPLY OUTLOOK

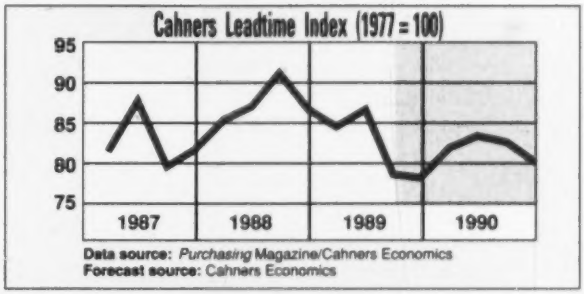
BY KRIS BLEDOWSKI

TPI to remain moderate in '90

Metals production will stabilize

Cahners Transaction Price Indicator (TPI) tracks price fluctuations for 120 industrial commodities. Beginning in August 1986, the indicator rose above the inflation-signaling 50% level and remained there for 32 consecutive months. This means that each month since August 1986, over half the commodities tracked went up in price. Late in 1987, the indicator rose above 70%. Price increases at the commodity level are one of the fundamental contributors to inflation.

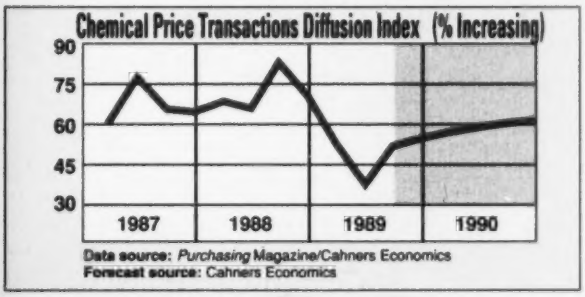
In April, the TPI finally dipped below 50% and has remained so for six consecutive months. In August, the indicator hit 34%. Between April and September, price cuts were most pervasive in commodity metals and plastic resins but a majority of chemical prices tracked were also falling. The TPI is expected to remain in the high 30 to low 40 percent range through the middle of 1990. Late next year, most materials buyers will see stable prices and the indicator will approach 50%.



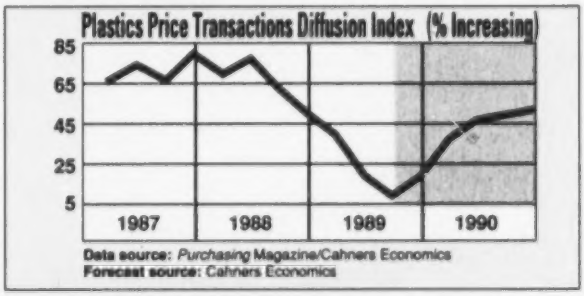
The 1990 metals production forecast has been revised substantially downward. Originally, the forecast assumed that inventories would not accumulate as demand began to drop off in 1989.

Between August 1988 and August 1989, aluminum production increased 7.0% and capacity utilization remained near 100%. Part of that increase was exported. In the first six months of the year, aluminum exports advanced 38%. According to *Purchasing* magazine, the volume transaction price for primary ingot fell from $1.24 per pound in September 1988 to an average of $0.81 in the third quarter. Plunging transaction prices indicate supply is outpacing demand.

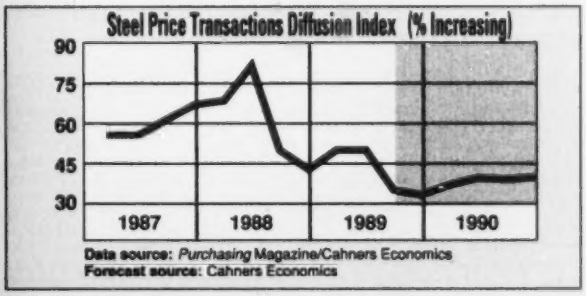
Output of iron and steel is expected to be flat next year, while production of nonferrous metals should decline, but only marginally. As such, primary metals output in 1990 is expected to remain even with 1989 levels. □



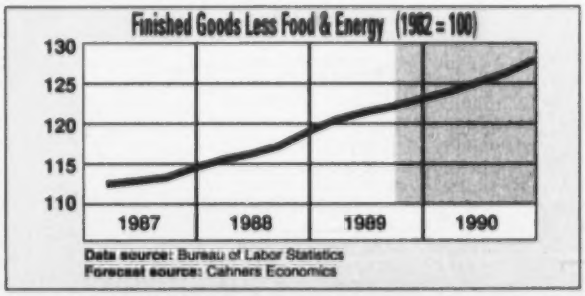
Expect chemical prices to rise sharply next year, with the diffusion index reaching the 60 mark.



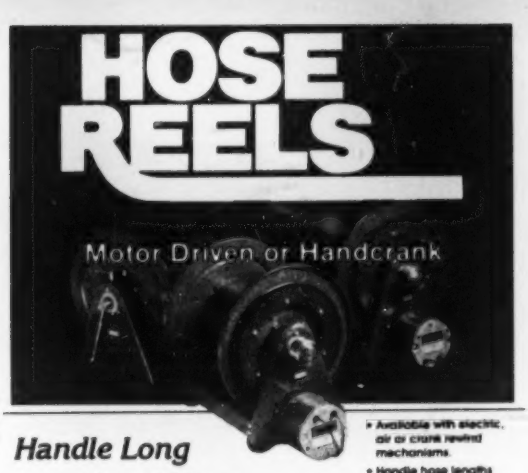
Prices for plastics products are expected to balloon in 1990, with the index rising more than 100%



After staying above 50, the diffusion index will fall to the 40-mark by next year.



Inflation for producer goods excluding food and energy will rise only 3.3% next year, down from a 4.15% rate in 1989.



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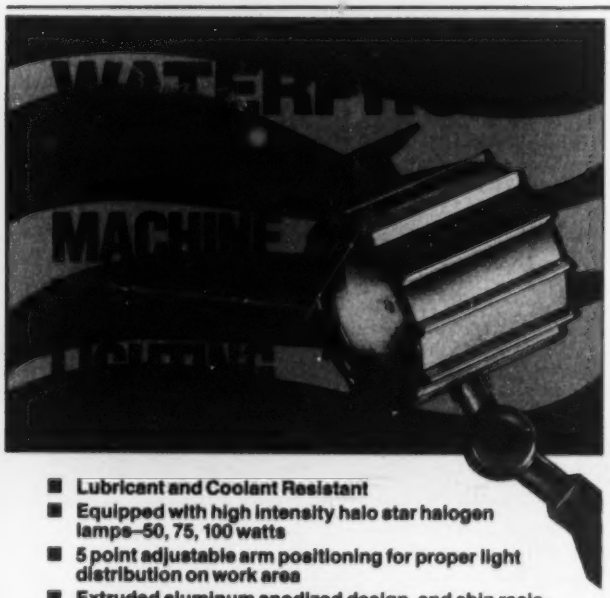

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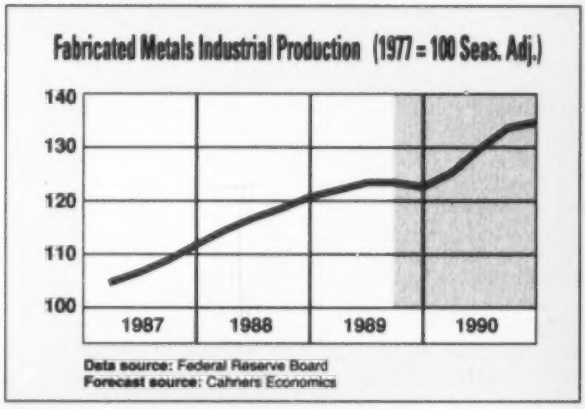
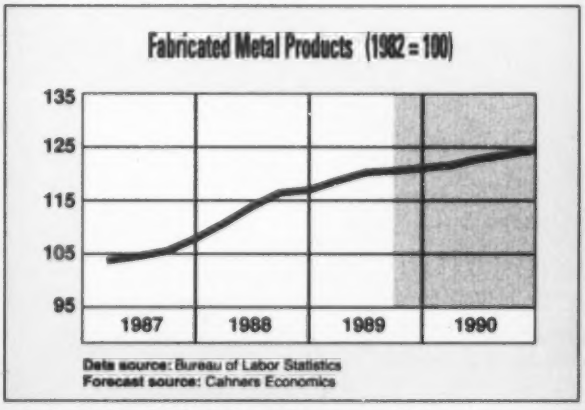
SUPPLY OUTLOOK

Fabricated metals stronger than OEM in 1990

Output of fabricated metals, which peaks and troughs earlier than that for OEM products in general, has been weaker than the output in most durable goods industries. After a peak of 9.0% in 1988, fabricated metals production inched up 3.4% last year and will rebound 6.7% in 1990 before levelling off to an annual rate of 2.5% by 1991. Structural metal production grew faster, but next year's gain will be modest. Expect growth of this category to reach only 2.9%. Hardware and tools, on the other hand, will directly follow the industry with a growth rate of 7.0% in 1990 and 6.8% in 1991.



After a slower 1989, industrial output of fabricated metals will grow at a healthy clip of 6.7% next year.



Inflation in the fabricated metals sector will slow down significantly next year to a 2.5% annual rate.

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